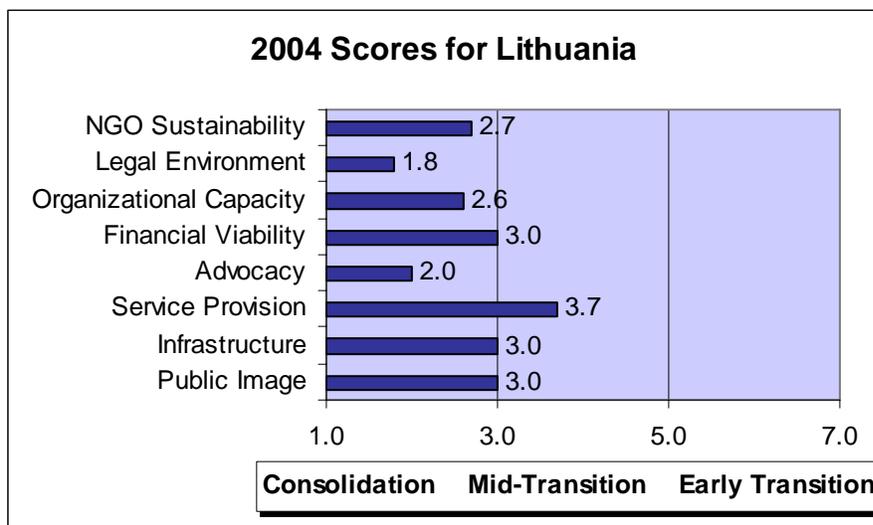
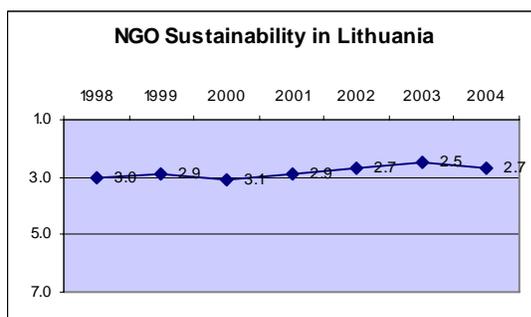

LITHUANIA

**Capital:** Vilnius**Polity:** Parliamentary democracy**Population:** 3,610,000**GDP per capita (PPP):** \$11,400**NGO SUSTAINABILITY: 2.7**

The past year can be characterized as a period of stability for Lithuania's NGOs. The most significant positive development was an improvement in public image, as the national media have been forming a new public perception of the sector by recognizing its power and importance in public life. The reorganization of the NGO information and support centers has been one of the more significant causes of deterioration in the areas of advocacy and infrastructure. Previously, the NGO center in Vilnius provided lawmakers with comments on proposed legislation affecting the sector, a service they now

lack. Since individual organizations are unable or unwilling to advocate for the sector as a whole, this niche might not be filled soon.

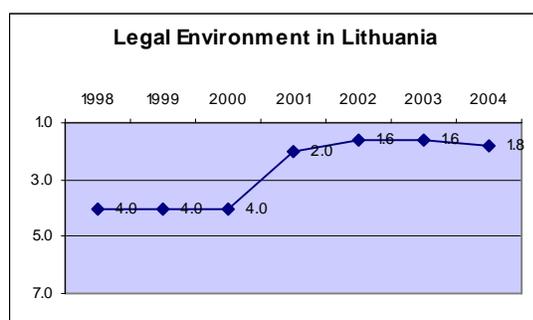
Market forces are becoming a governing influence in the NGO world. So-called "soft" NGO funding continues to decrease, yielding ground to European Union structural funds that impose very high and standardized requirements on all participants in the market. NGOs lack the initial capital to be able to compete with businesses to have their projects funded, and the only way for them to access structural funds is to convince local governments to become their shareholders or partners. Despite emerging contracting opportunities with businesses, the market for NGO services remains very small. This poses a threat that many NGOs will not survive and that the divide between small local NGOs and highly professional national NGOs will become even more pronounced. Nonetheless, the improving

public perception of NGOs and growing support of local constituencies are positive

trends that give hope of further progress for the country's NGO sector.

LEGAL ENVIRONMENT: 1.8

In 2004, the scope of permissible activities was made uniform for all types of Lithuanian NGOs. All organizations—whether registered as associations, charity and support foundations, societal organizations or public institutions—are now allowed to engage in economic activity, i.e., to sell services and products.



The personal income tax deduction for charitable contributions to NGOs has not been reinstated by the Seimas (the Lithuanian parliament). While businesses can deduct twice the amount of their donation from their taxable profits, there are no tax incentives to encourage individuals to donate to NGOs. An amendment to the Law on Lobbying that can affect NGO activities also awaits

consideration by the Seimas. The proposed amendment foresees a 10,000 Litas (about USD 3,200) registration fee for an organization to engage in lobbying activities, with advocacy understood as lobbying.

Since May 2004, NGOs are no longer refunded the VAT on foreign assistance funds. A VAT refund will be allowed only in several programs funded by the European Union. By the end of 2004, nonprofits will have received the first funds from the 2% personal income taxes earmarked to them by the 230,000 people who exercised their right to designate an eligible organization, allocating 8 million Litas (four times greater than the sum anticipated in the 2004 national budget). It is not yet known how much of these allocations will go to NGOs, as schools, hospitals and other facilities registered as public institutions are also eligible recipients. The 2% income tax provision has resulted in some unanticipated misuse, whereby some businesses established public institutions as a conduit for funds, and new unknown organizations have appeared to compete for them as well.

ORGANIZATIONAL CAPACITY: 2.6

NGOs—especially those in rural areas and small towns—have made notable efforts to build their local constituencies, increasing the numbers of volunteers and funds generated from small individual donations. These NGOs are particularly visible in

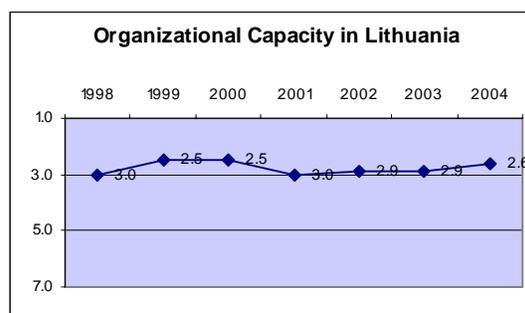
their communities and would not be able to survive if they did not work in an open, transparent and constituent-oriented fashion.

2004 NGO SUSTAINABILITY INDEX

NGOs operating on the national level have also been progressing in volunteer recruitment, and though their funds and staffing have not increased, their organizational capacity has continued to grow. In order to access European Union funding, Lithuanian NGOs have been joining international NGO networks and organizations, and adapting their manner of operation to that of European Union NGOs.

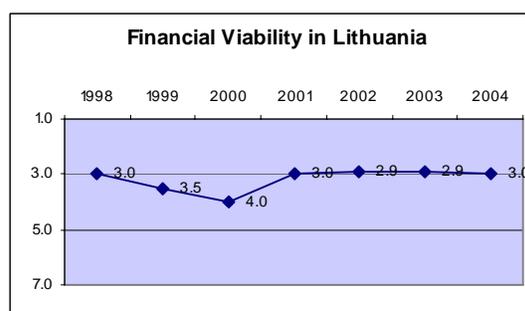
Lithuanian NGOs have come to recognize the importance of clearly defining their missions and of strategic planning. As NGO laws do not clearly separate or

adequately define the responsibilities of NGO administrations and boards of directors, functions are frequently combined, impeding a clear division of responsibilities between staff and boards.



FINANCIAL VIABILITY: 3.0

After a noticeable downward trend in the previous few years, the NGO funding situation has stabilized somewhat during 2004. Even as they engage in hard competition for a share of the significant European Union structural and other funds allocated to Lithuania, NGOs have been successfully diversifying their funding sources. More in-kind support is generated and more funds come from small businesses and individual contributions. One example of a successful jointly-funded EU and GOL project is EQUAL, a program that seeks to develop and test new and innovative ideas and practice to combat discrimination and inequality in relation to the labor market. By the end of 2004, 50 million Litas—approximately USD 18.8 million—will have been distributed by the EQUAL program to participating NGOs.



Small local NGOs, unable to compete for EU funds, survive exclusively on local resources coming from local philanthropy and membership fees. These resources are just beginning to be tapped, and NGOs put much effort into designing philanthropy development programs and activities

which, while not resulting in immediate returns, make NGOs more visible and promote the culture of philanthropy in their communities and in the country.

Government funding for NGOs has not been increasing and does not comprise a substantial share of overall NGO funding. While some local governments have

continued funding at the same levels as in 2003, others have reduced NGO funding in order to co-fund European- Union-supported programs. Co-funding is a precondition for receiving EU support and local governments are consequently revising their priorities to maximize their resources.

Local government funding for NGOs usually come as grants. There are as of yet few contracting opportunities, but there is increasing understanding among NGOs that they need to sell their services and products to generate income. While government contracting has not progressed

during the year, a new market for NGO services has been emerging. As more businesses start to recognize and adopt the principle of corporate social responsibility, the need for NGO-provided services to businesses grows.

The 2% personal income tax designation measure has served as a strong incentive for NGOs to pay more attention to financial management and accountability. The need for independent financial auditing is increasingly recognized, yet NGOs can rarely afford this expensive service.

ADVOCACY: 2.0



NGOs have been forming coalitions and some of their issue-based campaigns have yielded results. In the field of equal opportunity, NGOs have achieved some success in cooperation and advocacy at the national level, both in the legislature and with the government. Both nationally and locally, NGOs providing on-line psychological counseling have lobbied the government successfully to secure funding for their services in next year's budget. Efforts by an NGO coalition on education resulted in a voice for parents in the policymaking process of schools. The NGO coalition of Siauliai has formed an NGO consultative board to the local

government. Organizations uniting people with disabilities were actively promoting candidates in the October parliamentary elections and, for the first time in the history of Lithuania, a blind man was elected to the Seimas.

Notwithstanding these individual successes, the general trend in NGO advocacy has not been favorable. The group of parliamentarians that formed a caucus three years ago to promote NGO interests dispersed, and examples of abuses in NGO practice cited by lawmakers are coloring judgments about the sector and have served to make new legislation adopted by the Seimas more restrictive and less favorable to NGOs. The NGO Information and Support Center in Vilnius, which provided lawmakers with analytical material on issues of importance to the non-profit sector, is experiencing a crisis, and no other organization has taken over this important task. Many NGOs are themselves passive and do not show any effort to

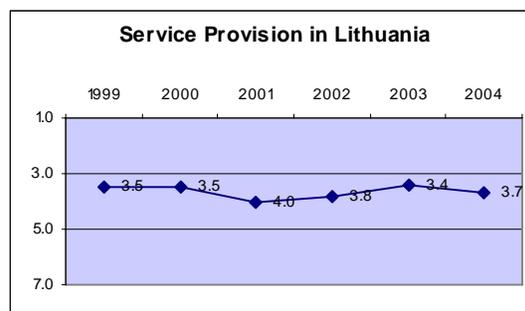
communicate with local or national governmental bodies. For this reason, neither a public commission established at the municipal board of the capital city of Vilnius, nor the citizens' advisory committees established at the level of the smallest local administrative unit (the

seniunija), have been successful. On the central government level, an attempt to create an NGO commission has stalled because because the NGOs themselves cannot agree on the composition of such a commission or the criteria for membership.

SERVICE PROVISION: 3.7

The most common activities engaged in by NGOs are providing basic social services, protecting the environment, and organizing cultural and sports events; however, the range of goods and services has broadened slightly. Occasionally, municipalities contract with NGOs to assist in development planning, conducting social monitoring, and providing expertise. More frequently, municipal authorities tend to give out small grants to appease NGOs rather than encouraging them to bid for contracts. There is a preconceived mistrust of NGOs as service providers. This mistrust is based partly on a widely held view among the general public that all NGO work should be free of charge, and that all grants received should pay only for the actual services rendered. Another factor that creates a negative impression of NGOs as service providers is a lack of continuity in funding. NGO clientele are usually vulnerable and unable to pay for services themselves. Clients rely on NGO services, and then the services stop because a project comes to an end. In an attempt to ensure continuity and quality of services, local governments demand proof of long-term financial sustainability and a guarantee that a contractor is able to cover his own basic administrative and overhead

costs. Such requirements put NGOs in an untenable and uncompetitive position, as neither their founders nor funds generated from local sources can cover administrative costs in such contracts. Unless municipalities become shareholders of NGOs, they will no longer be able to act as service providers to local governments.

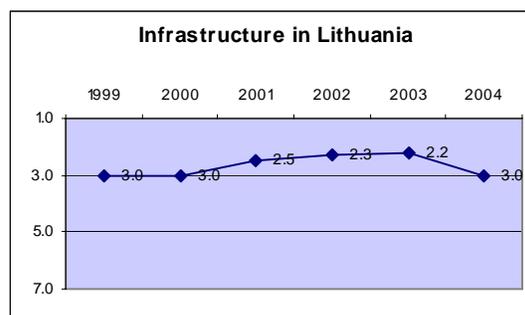


Demand for NGO services is increasing within the business sector, where they are asked to administer charity and support programs and to serve as intermediaries between businesses and local communities. Lack of communication with local communities has recently caused a serious delay in several ambitious business ventures, and now businesses seek the advice of local NGOs before they start implementing their plans.

INFRASTRUCTURE: 3.0

Lithuanian NGO resource centers are undergoing reorganization. They have fulfilled their primary mission of assisting the emergence and consolidation of the non-profit sector in the country, and now face new tasks and challenges. Many NGO umbrella organizations, including the two formerly very significant NGO information and support centers in Kaunas and Vilnius, are in crisis. As traditional funding sources decline, so do their budgets, and their attempts to generate income from membership fees and paid service provision have not yielded sufficient funding. NGO centers could be viable if they redefined their missions and recognized their important role in advocacy. The centers, however, seem to lack the initiative and competence for this task.

The number of local community foundations increases. The funds they distribute are still small, but their visibility continues to grow. There are five community foundations, as well as several regional associations of local community organizations. These institutions play an important educational role in their regions.

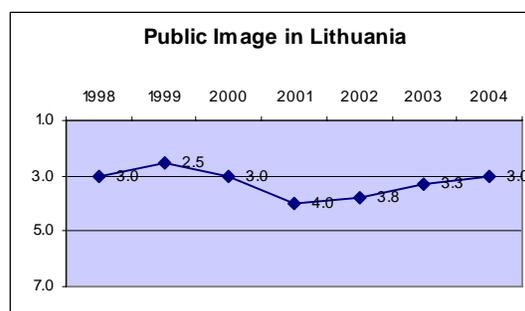


This year, NGOs more actively exchanged information on the Internet. An electronic NGO conference and a Web site for community organizations have become the main information-sharing networks and the only countrywide specialized information source for NGOs. Since NGO information and support centers have reduced their activities, sector-specific publications no longer exist.

The need for traditional basic NGO training has been diminishing. There is a growing need for practical and highly specialized training to meet the changing accounting, bookkeeping, job safety, and other requirements imposed by law. However, most NGOs cannot afford such training, or the associated tools (e.g., computerized accounting systems).

PUBLIC IMAGE: 3.0

Although local governments still lack trust in NGOs, the relationship between NGOs and the local media has been very good. For example, the Alytus regional daily has dedicated one page a week to cover the activities of local non-profits.



2004 NGO SUSTAINABILITY INDEX

This year has also witnessed an upsurge of attention to NGOs in the national media. From time to time, the media disclose fraud and money-laundering schemes involving NGOs. However, after several highly visible scandals involving development projects when NGOs successfully defended the interests of local communities against business interests, the media have come to recognize the key role NGOs play in public life. The image of NGOs in the media has been changing from one of supplicant to that of public voice. The message was conveyed that the non-profit sector cannot be ignored, and discussion of issues in the national media rarely occurs without the participation of NGOs.

The increased visibility and improved public image of the non-profit sector is a direct result of more active marketing. The two-percent income tax measure has served as a strong incentive for NGOs to publicize their activities and accomplishments, and NGOs are increasingly being asked by businesses to cooperate on specific projects. NGOs are also often invited to serve on governmental commissions and on municipal and community boards.

An NGO code of ethics has been discussed for a few years, but one has not yet been adopted. The discussion itself is a positive development, building awareness and encouraging NGOs to demonstrate transparency in their operations.